

Message Text

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ACTION AGRE-00

INFO OCT-01 ARA-10 ISO-00 COME-00 EB-08 /019 W

-----066450 180334Z /70

R 171900Z OCT 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4192

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EO 11652 NA

TAGS BR EAGR ETRD

SUBJECT: BRASILIAN COFFEE MARKETING POLICY

REF RIO 4804

FOLLOWING MESSAGE WAS PREPARED BY AMCONSUL RIO DE JANEIRO: AND
AMEMBASSY BRASILIA/

SUMMARY: IN PAST WEEK, BRAZILIAN COFFEE INSTITUTE RAISED CONTRI-
BUTION QUOTA ON EXPORTS AND GUARANTEE PRICE FOR GROWERS, SUSPENDED
ENTREPOT SALES, AND ANNOUNCED THAT EXPORTERS WOULD HAVE TO LIQUIDATE
OR MAKE GOOD ON ANY EXPORT REGISTRATIONS MADE UNDER FALSE PRETENSES.
NET EFFECT IS TO STRENGTHEN IBC CONTROL OF BRAZILIAN COFFEE
EXPORTS. THERE IS ALSO THE POSSIBILITY THAT IBC IS INTERESTED IN
RESUMING COFFEE EXPORTS THROUGH DISCOUNT TRANSACTIONS BUT THIS
HAS BEEN DENIED BY IBC PRESIDENT. END SUMMARY.

1. IN ADDITION TO BRAZILIAN COFFEE INSTITUTE (IBD) MEASURES
REPORTED REFTEL (WHICH INCLUDED RAISING CONTRIBUTION QUOTA FROM
US\$160 TO \$220 PER 60 KG BAG; SETTING NEW GUARANTEE PRICE TO GROWERS
OF CR\$2500 PER BAG EFFECTIVE JANUARY 1, 1978; AND MAINTAINING MINI-
MUM EXPORT PRICE OF \$3.20 THROUGH END OF DECEMBER), IBC THIS
WEEK ANNOUNCED TWO OTHER POLICY CHANGES:

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--EXPORTERS, WHO AT THE HEIGHT OF COFFEE BOOM REGISTERED COFFEE
FOR EXPORT BEFORE ACTUALLY MAKING SALE ("VENDAS FRIAS"). WILL
HAVE TO EITHER (1) MAKE GOOD ON THESE EXPORTS BY OCTOBER 31, OR
(2) RE-REGISTER FOR EXPORT SHIPMENT BY DECEMBER 31 AT CURRENT
MINIMUM EXPORT PRICE AND CONTRIBUTION QUOTA, OR (3) CANCEL EXPORT
REGISTRATION, FORFEITING PARTIAL CONTRIBUTION
QUOTA DEPOSIT MADE AT TIME OF REGISTRATION.

--COFFEE SALES FROM IBC ENTREPOTS IN TRIESTS AND HONG KONG ARE SUSPENDED.

2. ACCORDING TO IBC PRESIDENT CALAZANS' STATEMENT TO PRESS, PURPOSE IN SUSPENDING ENTREPOT SALES AND CRACKING DOWN ON EXPORTERS WHO ENGAGED IN "VENDAS FRIAS" IS TO INSURE THAT NO BRAZILIAN COFFEE IS SOLD FOR LESS THAN MINIMUM EXPORT PRICES. RIO TRADE SOURCES, HOWEVER, DO NOT BELIEVE THAT EVASION OF MINIMUM EXPORT PRICE THROUGH THOSE DEVICES HAS BEEN A SERIOUS PROBLEM. SALES FROM IBC ENTREPOTS HAVE OFTEN BEEN MADE AT A SLIGHT DISCOUNT FROM MARKET PRICE (PART OF THIS IS A QUALITY DISCOUNT, SINCE ENTREPOT COFFEE FREQUENTLY IS SEVERAL YEARS OLD). BUT WITH BRAZILIAN PRICES SIGNIFICANTLY ABOVE OTHER COFFEE PRICES, EVEN ENTREPOT COFFEE IS NOT AT PRESENT A SUFFICIENT INDUCEMENT TO "BUY BRAZILIAN".

3. REGARDING "VENDAS FRIAS", RIO TRADE SOURCES NOTE THAT THIS PRACTICE HAS BEEN FOLLOWED BY ALMOST ALL BRAZILIAN COFFEE TRADERS AND CAN BE CONSIDERED A NORMAL TRANSACTION. EXPORTERS WHO REGISTER "VENDAS FRIAS" ARE SIMPLY HOPING TO PROFIT IF IBC LATER INCREASES CONTRIBUTION QUOTA. EXPORTER CAN THEN CONCLUDE TRANSACTION AT CURRENT MARKET PRICE BUT ONLY HAS TO PAY IBC CONTRIBUTION QUOTA IN EFFECT AT TIME OF REGISTRATION. EXPORTERS WHO RESISTERED THESE "VENDAS FRIAS" DURING THE FIRST QUARTER OF 1977 CANNOT MAKE GOOD ON THESE EXPORTS SINCE HIGH CONTRIBUTION QUOTA (AND RELATIVELY LOW WORLD MARKET PRICES) MEANS EXPORTER WOULD WIND UP TAKING LOSS. IF WORLD PRICES LIMITED OFFICIAL USE

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WERE CLOSER TO MINIMUM EXPORT PRICE, EXPORTERS MIGHT LIQUIDATE THESE REGISTRATIONS AND EXERT SOME DOWNWARD PRESSURE ON PRICES BUT IN CURRENT SITUATION LOSSES FOR EXPORTERS WOULD BE SUBSTANTIAL AND TRADE CONTACTS DO NOT BELIEVE THESE "VENDAS FRIAS" HAVE BEEN OVERHANGING THE MARKET.

IBC PRESIDENT CALAZANS, IN PUBLIC STATEMENTS REPORTED BY THE PRESS, HAS BEEN REMARKABLY NONCHALANT REGARDING POSSIBLE EFFECTS THAT FORCED LIQUIDATION OF "VENDAS FRIAS" MIGHT HAVE ON COFFEE EXPORTER SOLVENCY.

4. THE STAGNANT STATE OF CURRENT BRAZILIAN COFFEE TRADE HAD LED GROWERS TO ASK FOR SUBSTANTIAL INCREASES IN THE IBC GUARANTEE PRICE (TO CR\$2500 IMMEDIATELY AND CR\$3000 BEGINNING JANUARY 1; CURRENTLY GUARANTEE PRICE IS CR\$2000 PER BAG) AND IN THE FINANCING LEVELS (TO 80 PERCENT OF NEW GUARANTEE PRICES; CURRENTLY, FINANCING LEVEL IS CR\$1000). THE CR\$500 INCREASE IN THE JANUARY GUARANTEE PRICE SEEMS TO BE A COMPROMISE BETWEEN THESE DEMANDS AND THE GOB'S ANTI-INFLATION POLICY.

5. NET EFFECT OF CHANGES SEEMS TO STRENGTHEN ALREADY-FORMIDABLE IBC POSITION IN CONTROLLING EXPORT SALES OF BRAZILIAN COFFEE. WHETHER IBC WILL CONTINUE TO INSIST ON \$3.20 MINIMUM EXPORT

PRICE OR HAS SET THE STATE FOR RENEWED EXPORT SALES BY OFFERING
FOREIGN BUYERS DISCOUNTS ON THE CONTRIBUTION QUOTA ("SPECIAL
TRANSACTION") REMAINS TO BE SEEN.
(THE IBC, OF COURSE, IS THE ONLY EXPORTER CAPABLE OF OFFERING
CONTRIBUTION QUOTA DISCOUNTS.) CALAZANS HAS REJECTED THIS LATTER
POSSIBILITY BUT OTHER IBC OFFICIALS HAVE BEEN MORE CIRCUMSPECT
AND ACCORDING TO PRESS REPORTS SEVERAL IMPORTANT COFFEE IMPORTERS
ARE SCHEDULED TO MEET WITH IBC OFFICIALS THIS WEEK.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, MARKETS, POLICIES, PRICES
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Oct-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL08542
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770381-0896
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771054/aaaabtko.tel
Line Count: 124
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: da65422e-c288-dd11-92da-001cc4696bcc
Office: ACTION AGRE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 RIO DE JANEIRO 4804
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 897291
Secure: OPEN
Status: NATIVE
Subject: BRASILIAN COFFEE MARKETING POLICY
TAGS: EAGR, ETRD, BR
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/da65422e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009